



Annual Audit Letter on the 2018/19 External Audit Dorset County Council

December 2019

Contents

	Page
1 Letter to Members	3
2 Key Messages	4
3 Responsibilities and Scope	5
4 Audit of the Accounts	6
5 Value for Money	9
6 Other Matters	9

1. Letter to Members

The Members

County Hall

Colliton Park

Dorchester

Dorset

DT1 1XJ

20 December 2019

Dear Sirs

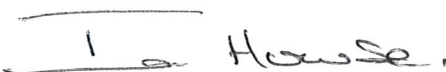
We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Dorset County Council ("the Council"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd (PSAA) website at www.psa.co.uk and on the Council's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from www.psa.co.uk.

This key contents of this letter have been discussed and agreed with the Council. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition of the PSAA contract in 2018/19. Our aim is to deliver a high standard of audit, delivering insights identified from our audit work to make a positive and practical contribution, which supports the Council's own agenda.



Ian Howse

Audit Partner

for and on behalf of Deloitte LLP

Cardiff, United Kingdom

2. Key Messages

Statement of Accounts	
Unqualified opinion issued on 31 July 2019	<p>In 2018/19 the Council was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The Statement of Accounts was prepared and audited in accordance with the agreed timetable.</p> <p>Through our audit planning we identified four significant risks of material misstatement which we addressed through our audit. These were:</p> <ul style="list-style-type: none"> • Property valuations; • completeness and cut-off of expenditure; • defined benefits pension scheme; and • management override of controls. <p>Materiality for the Council's group accounts was set at £12,872,026, as a component of this group Dorset County Council's materiality was set at £12,614,585.</p> <p>We issued an unqualified audit opinion on the Statement of Accounts on 31 July 2019.</p> <p>We note that a separate Annual Audit Letter will be produced in relation to the Pension Fund where required.</p>
Value for Money (VfM) conclusion	
Unqualified opinion issued on 31 July 2019	<p>We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office, namely whether the Council has in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued a qualified opinion in respect of the VfM conclusion on 31 July 2019 in respect of the Children's Services and working with other partners.</p>
Annual Governance Statement	
All relevant governance matters were adequately and appropriately disclosed	<p>We have considered the contents of the Annual Governance Statement and confirmed that the Statement complied with guidance and that it adequately and appropriately disclosed all relevant governance matters arising in the year that we are aware of.</p>
Whole of Government accounts	
The Council is below the audit threshold	<p>The Council prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to</p>

Statement of Accounts

review this pack as the Council falls below the threshold where an audit is required.

As required we have confirmed this fact to the National Audit Office by the national deadline of 13 September 2019.

Financial reporting systems

Weaknesses in internal control were identified

During our audit we identified a number of areas for improvement in internal controls and procedures resulting in eight recommendations being raised, six of which were IT related.

3. Responsibilities and Scope

Responsibilities of the Council and Auditors

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England.

As the Council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Council's accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the value for money conclusion in line with guidance issued by the National Audit Office, in respect of local government bodies for the financial year ended 31 March 2019.

4. Audit of the Accounts

Statement of Accounts

Unqualified opinion issued on 31 July 2019

Before we give our opinion on the accounts, we are required to Report to Those Charged with Governance any significant matters arising from the audit. A detailed report was discussed with the members of the Audit and Governance Committee on 26 July 2019.

Materiality for the Council's accounts was set at £12,872,026 which equated to 1.7% of gross expenditure. The level of materiality shapes and informs the extent of the audit work we undertook, including review of balances which are below this which exhibit particular characteristics. This assists in the identification of transactions and balances which were likely to give rise to material misstatements, and in determining the extent of work undertaken in respect of the areas we judged to contain such risks.

Our Report to Those Charged with Governance, in the case of the Council, the Audit and Governance Committee, set out the details of any errors identified during the audit which were greater than £643,000 for the group and £634,000 for Dorset County Council as a component of the group, which is our clearly trivial threshold.

Our audit work was designed to specifically address the following significant audit risks:

- Whether property valuations were materially correct - We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation and between the valuation date and year end. We reviewed revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals. We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed in October 2019 and the year-end and how assets not specifically revalued in year. We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the impairment assessment completed as part of the year end valuation update. We tested a sample of revalued assets and re-performed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- Whether the defined benefit pension valuation is appropriate - We obtained understanding of the design and implementation of the key controls in place in relation to the Council's review of the assumptions. We evaluated the competency, objectivity and independence of Barnett Waddingham the actuarial specialist. We reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used. We have completed testing on the plan assets as part of our work on the County Pension Fund. We reviewed the pension related disclosures in

Statement of Accounts

	<p>respect of actuarial assumptions in the financial accounts for consistency with the Actuary’s Report.</p> <ul style="list-style-type: none"> • Whether the Statement of Accounts contained all of the expenditure relating to the year ended 31 March 2019 (Completeness and cut-off of expenditure) – We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and valuation of accruals and provisions; we performed focused testing in relation to the completeness of completeness of accruals through testing of post-year end invoices raised and payments made. We reviewed provisions to assess completeness including confirming there are no legal claims outstanding requiring a provision to be made. • Whether the Council’s controls had been bypassed by management in the preparation of the financial statements (Management override of controls) – We tested the design and implementation of key controls in place around journal entries and key management estimates. We risk assessed journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We did not identify any significant transactions that were outside of the normal course of business for the Council. <p>We issued an unqualified opinion on the Council’s 2018/19 accounts on 31 July 2019, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.</p>
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Key issues from work performed on the Statement of Accounts

We identified two uncorrected misstatements	<p>We received a set of draft accounts in line with the agreed deadline, which were supported by working papers.</p> <p>The final Statement of Accounts upon which we issued our opinion contained two errors.</p> <p>The first error concerned the non-disclosure of senior staff names where per the Accounts and Audit Regulations 2015 for senior staff whose salary is £150,000 or more per year, they must also be identified by name, however, this was not the case.</p> <p>The second error was in relation to the Local Enterprise Partnership Grant. In 2017/18 the Council accepted a grant in March 2019 from the Local Enterprise Partnership (LEP) for support towards capital projects. This grant was then repaid in full to the LEP in the following financial year in April 2018. Our testing identified due to the substance of the transactions, the grant income totalling £11.8m should not have been recognised in 2017/18.</p>
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Annual Governance Statement

The Statement includes all appropriate	<p>As appointed auditors, we review the Annual Governance Statement (“AGS”) and comment on any inconsistencies noted between the AGS and our audit work,</p>
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Statement of Accounts	
disclosures and is consistent with our understanding of the Council's governance arrangements	<p>other work relating to the Code of Audit Practice, and our understanding of the Council's Governance arrangements.</p> <p>We have concluded that the Statement includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements and internal controls derived from our audit work.</p>
Powers and Duties	
We did not receive any questions about the accounts or make any public interest reports	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government accounts return	
The Council is below the audit threshold	<p>The Council prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Council falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office by the national deadline of 13 September 2019.</p>
Audit Certificate	
We have issued our certificate	<p>We issued our certificate on 31 July 2019. The certificate confirms that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>

5. Value for Money

Background and approach

The approach to our audit work in relation to value for money ("VFM") was specified by the National Audit Office.

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We identified a significant risk as part of our risk assessment which was in respect of sustainable resource deployment and working with partners and other third parties.

The VFM conclusion

Having performed our work in line with guidance received from the National Audit Office we issued a qualified value for money conclusion for the 2018/19 financial year.

Where, in July 2018, Dorset County Council received the findings of an inspection by Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire & Rescue Services (HMICFRS) and HMI Probation (HMIP) completed in May 2018 into the multi-agency response to child sexual exploitation, children associated with gangs and at risk of exploitation and children missing from home, care or education in Dorset.

The report identified that: there are many concerns regarding practice in Dorset County Council, including: 'the most vulnerable children are not being sufficiently safeguarded by local authority and while some work is of a reasonable quality, the poorest work is very poor'. The report noted that the Council needed to ensure that it effectively balances an outward focus on partnership working alongside the comprehensive internal improvement work underway.

In March 2019 Dorset County Council received the findings of a follow up inspection by Ofsted and the CQC completed in February 2019 of Special Education Needs / Disabilities provision in Dorset (specifically where Dorset County Council is responsible). This follow up inspection was to consider whether the local area has made sufficient progress in addressing the areas of significant weakness first identified in their March 2017 inspection. The inspectors were of the opinion that local area leaders have not made sufficient progress to improve with the following significant weakness still present:

- Weaknesses in the monitoring and quality assurance procedures to challenge and support provision and improve outcomes for children and young people; and,
- Significant proportion of parents describe their concerns at the extent of the delays, the lack of support and lack of communication, transparency and involvement at strategic and individual level; and,
- Low conversion rates from statements of special educational needs to education, health and care plans and a lack of timely completions of new EHC plans with appropriate and personalised outcomes.

Background and approach

As a result, the inspectors have referred the matter to the Department of Education and NHS England for consideration and further action. This may include the Secretary of State using his powers of intervention.

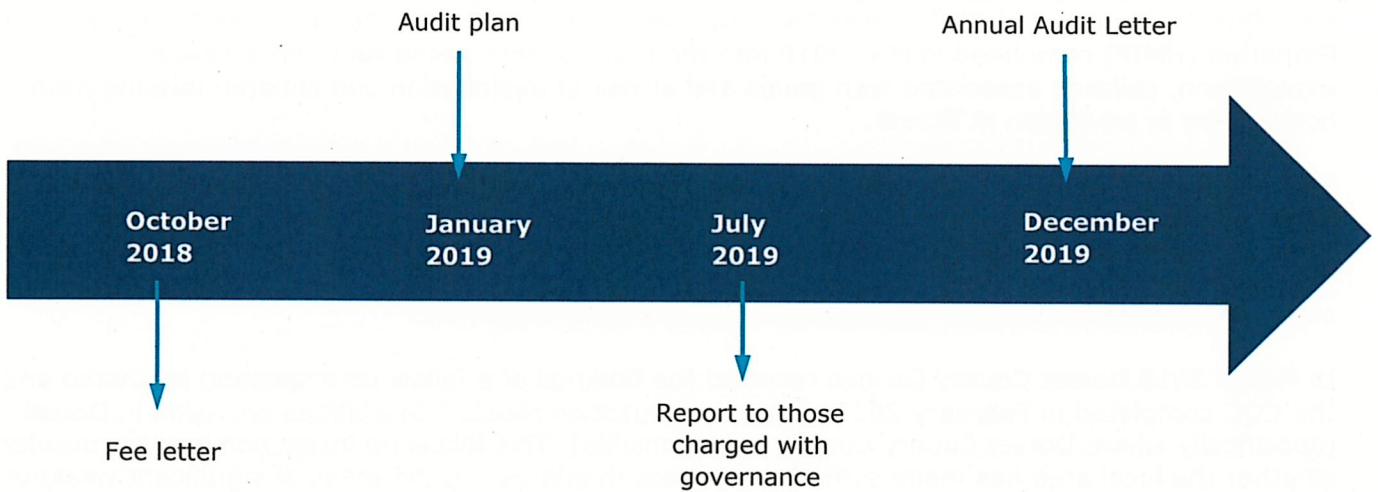
The issues described above are evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities.

6. Other Matters

Reports issued

Reports issued during the course of the 2018/19 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- The Report to Those Charged with Governance on the 2018/19 audit of the Council; and
- This Annual Audit Letter.



Analysis of audit fees

Audit fees charged are as follows:

	2018/19 £
Scale fees for the audit of the Council's annual accounts, VfM conclusion and whole of government accounts return	56,997

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

No matters impacting our independence have arisen during the year.

Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the

Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

Deloitte.

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